Pick n Pay Women's Walk

We are encouraging and assisting our customers to lead more active lifestyles through participation in events such as the Pick n Pay Women's Walk.

These nationwide 5km walks, which raise awareness of breast cancer, are held in association with Pink Drive and have had more than 50 000 participants during the last two years.

Pink Drive is an organisation committed to fighting breast cancer and they are able to do this through increasing awareness, education and taking relevant health services in mobile mammography units to women who wouldn't otherwise have access to them. Pink Drive has to date educated over 90 000 people, provided more than 5 000 free mammograms and over 60 000 clinical breast examinations in community areas.

Chief Executive Officer's report

Richard Brasher (second from right)

Our business is stronger than it was a year ago. We are at the foothills, not the summit, of our climb. We have a plan to reach the summit and the determination to succeed.

Nelson Mandela's passing has made this a momentous year for South Africa. Never before have I seen a nation – and indeed the entire world community – come together so unconditionally and so powerfully to mourn the death, and celebrate the extraordinary life and legacy, of one individual. It has been a time for personal and collective reflection, and I am pleased that Pick n Pay was able to play its own small part in helping our customers and staff to express their appreciation for Madiba's life and achievements. Around the country, in large stores and small, customers and staff came together on 15 December 2013 to remember and retell the part that Nelson Mandela played in their lives and the life of the nation, and to support our pledge to donate our profits from the day and more to causes which upheld Madiba's legacy.

These events underlined for me the hugely important role that trust plays in our lives. I am incredibly fortunate to lead a business which has long held a special place in the hearts of people across South Africa, earned through decades of standing up for what is right for the individual and what is right for society. Trust is hard-earned, but once it has been bestowed it also places an important responsibility on the individual or organisation which benefits from it.

My vision for Pick n Pay is to discharge that responsibility by genuinely being the retailer for every South African. At its most basic level this means providing food and other goods which are safe and nutritious, which are honestly and informatively described, and which suit the needs of different customers with differing lifestyles. It also means growing our business in a way which makes these benefits more accessible to more people, including many people who have not previously enjoyed access – either physical or economic – to the benefits of the modern, safe, commercial food economy. More than this, it means understanding people's desire for a better life for themselves and their families, and helping to fulfil that desire by providing new or improved products, even better value, and innovation in stores, online and through services.

A year ago I said that I was not content to rest on a vision, and was determined to organise, focus and motivate my team around a clear plan. I was equally determined that this plan should always have the customer at its heart. To be sustainable, our success must be measured in growing sales as well as profit; in increasing customer satisfaction as well as share value.

A year later I am pleased to report that we are making good progress on this plan. We have opened 111 new stores across the country, ranging from Pick n Pay and Boxer stores which serve emerging markets through to our new store at the Waterfront in Cape Town. We have sharpened our promotions, particularly around the key holidays which are such an important part of South African life. We have improved our availability, focusing on those products which matter most to our customers.

We have enhanced our operations, centralising more of our supply chain and collaborating better with our suppliers to achieve greater efficiency, improve logistics management and lower costs. We have simplified processes in stores and have empowered staff through greater accountability.

Each of these steps is helping us deliver a better business performance. Our profits have improved substantively, albeit from a low base. We have narrowed the gap in market share growth compared to our key competitors, and gained market share in some crucial months of the year. Importantly, more customers are buying more products from Pick n Pay, and are telling us that we are enhancing their shopping experience.

We in turn are finding new ways of rewarding the loyalty of our customers, particularly through our smart shopper programme. Almost 8 million smart shopper cards have been issued. The number of customers who regularly use their card is growing steadily in response to our enhanced rewards programme. This in turn strengthens our business because smart shopper customers on average spend 5% more with us than customers outside the programme.

Our franchisees remain crucial partners in our business, exemplifying the Pick n Pay commitment to excellent customer service. I am grateful to each of them for their hard work and entrepreneurship over the past year.

The rest of the African continent remains an exciting second engine of growth for Pick n Pay. Outside South Africa we increased segmental revenue by 27.9% and increased our like-for-like sales by 9.4%. In the course of the year we took clear and decisive action to close our Mauritius and Mozambique franchise operations. In both cases we reached a firm conclusion that the businesses, as they were structured, did not offer us a sound basis for sustainable growth. However, the prospects are strong in the markets in which we continue to operate and further afield. We have experienced good growth in Zambia, and have installed a team on the ground in Nigeria to explore opportunities in that market. I hope to update you positively on this in the future.

Looking more broadly, the retail sector globally is changing perhaps more rapidly than ever before. Businesses which did not foresee powerful new trends, or which have failed to adapt swiftly and sufficiently to trends they did foresee, are struggling. The opportunity for Pick n Pay is to orientate itself decisively and effectively in the face of new developments. I see two trends as the most significant.

First, in Europe and the US, the sales growth of many traditional retailers is increasingly being eroded by online businesses. What was seen as a distant threat a decade ago is now a broad-based reality. This trend remains less powerful in South Africa. But the direction of travel is the same, and will accelerate. Pick n Pay was quick to anticipate the trend and we are enjoying strong growth of around 27% in our online food delivery business. We currently have more than 2 000 deliveries per week, and our service has branched out further during the year in the Western Cape, KwaZulu-Natal and the Free State. I want to see more growth and more depth in this area of the business in the coming years.

Secondly, customers are seeking ever greater value for money. What began as a response to austerity in the global economic downturn has become a full-blown consumer trend – among more-affluent as well as less-affluent customers. South Africa is by no means immune to this trend. Pressure has fallen on consumers in recent times from various directions – the weakness of the rand, higher energy and utility costs, rising interest rates and rising consumer debt. Our customers look to us to help them through more challenging times. I therefore see it as an important strategic priority for Pick n Pay to accelerate progress in every area of our business that can contribute to giving our customers greater value – whether it is how we buy, how we transport goods in our supply chain, how we fill and operate our stores, how we minimise waste or how we provide excellent customer service in ever more efficient ways.

Helping our customers through difficult times is at the heart of our values as a Group – exemplified in our principle that doing good is good business. Throughout my career I have worked in the belief that there is no real compromise to be struck between commerciality and corporate social responsibility. The key to both lies in understanding and respecting people's immediate priorities and their longer-term aspirations. By building a stronger, more efficient business offering excellent value for money, we help our customers satisfy the immediate needs of their families. And, as a stronger, more efficient business, we can better help our customers fulfil their desire to build a better future for themselves, their families and their communities. I am proud of the leadership that Pick n Pay has shown in recent years – for example in helping new emerging suppliers grow through our collaboration with the Ackerman Pick n Pay Foundation, in leading the way on seafood sustainability and climate change, and in helping countless local organisations which seek support through our stores. I look forward to increasing our impact in these and other areas as we further grow and strengthen our business.

We are approaching this next stage of our plan on the basis of a balanced scorecard comprising five segments: our customer offer, our operations, the organisation of our people, our relationship with the communities we serve, and our financial performance. We have a plan to improve each of these segments, and in turn deliver better returns for our customers, our staff, our shareholders and our broader stakeholders.

Our business is stronger than it was a year ago. Customers and shareholders are experiencing the benefit. I want to express my thanks to all our staff who have worked so hard over the past 12 months to improve our business and the lives of our customers.

But no journey worth making is ever straightforward; no goal worth achieving is a given. Much hard work remains to be done in strengthening our consumer offer, further improving our shopping trip, increasing our efficiency, reducing our costs, and equipping and empowering our team for the task.

I tend to emphasise to my colleagues and to our stakeholders that we are at the foothills, not the summit, of our climb. But we have a plan to reach the summit and the determination to succeed. As always, we can turn to the wise words of Nelson Mandela to express the challenge perfectly:

After climbing a great hill, one only finds that there are many more hills to climb.

Richard Brasher
Chief Executive Officer

Cape Town
14 April 2014

Chief Finance Officer's report

Bakar Jakoet

Strong financial control and tighter operating efficiency across the business has been key to our improvement in trading profit.

Effect of the change in financial reporting calendar

The Group implemented a 52-week financial reporting calendar in February 2013, aligning external financial reporting with Group internal operational structures. Revenue and gross profit is now managed on a daily basis and aggregated into 52 trading weeks of 364 days, with the reporting period always ending on a Sunday. All other items included in profit before tax (other than those included in gross profit) are managed on a calendar month basis and are not pro-rated to days or weeks. The profit for the year therefore consists of 52 weeks of gross profit and 12 calendar months of other income and trading expenses.

As a result of this change, the 2014 annual financial period began on 4 March 2013 and ended on 2 March 2014 (364 days). This compares to the 2013 annual financial period which ran from 1 March 2012 to 3 March 2013 (368 days). The 2013 financial period therefore included four extra days of turnover and related gross profit. Other income and expenditure between the two years is, however, comparable, with both the 2014 and 2013 financial years reporting a full 12 calendar months of other income and trading expenses.

Reviewing turnover and gross profit on a comparable 364-day basis is more meaningful and as such, the results in this commentary (unless otherwise stated) are presented on a comparable pro forma basis. Refer to note 29 on page 134 for more detail.

PICK N PAY STORES LIMITED
Key financial indicators

	364 days 2014	Normalised trading calendar 364 days (pro forma) 2013	Comparable pro forma change %	As previously reported 368 days 2013	% change
Total till sales	**R73.0 billion**	R67.8 billion	7.6	R68.5 billion	6.5
Turnover	**R63.1 billion**	R58.6 billion	7.7	R59.3 billion	6.5
Gross profit margin	**17.5%**	17.5%		17.4%	
Trading profit	**R1 010.3 million**	R751.7 million	34.4	R852.4 million	18.5
Profit before tax	**R833.1 million**	R708.2 million	17.6	R808.9 million	3.0
Basic earnings per share	**122.01 cents**	100.50 cents	21.4	115.14 cents	6.0
Headline earnings per share	**138.51 cents**	96.66 cents	43.3	111.30 cents	24.4
Total annual dividend per share	**92.30 cents**			84.00 cents	9.9

Review of operations

The Group presented an improved financial performance this year, substantively delivering on the objectives we set at the beginning of the year. Strong financial control and tighter operating efficiency across the business has been key to our improvement in trading profit. While there is still a great deal of work to be done, we are encouraged by the progress achieved to date.

The Group delivered encouraging new-store growth. However, a more challenging economic environment for consumers has inhibited like-for-like growth across the sector, and Pick n Pay has not been immune to this. Customers are facing increasing financial pressure as a result of rising fuel, electricity and other utility costs, rising interest rates and levels of household debt, and a weak rand feeding through to rising commodity prices and consumer goods price inflation. We anticipate further pressure in the short to medium term.

Fiscal control and tight overhead management remains crucial in this environment. Our plan is therefore to continue to reduce our costs and improve our efficiency. However, a customer-driven, sales-led approach remains core to our strategy. By lowering our costs, we can drive sales by investing more in the shopping trip and by focusing relentlessly on the fundamentals of good retailing – offering customers consistently good quality, service and value for money.

A growing business

The Group has a clear plan to compete strongly, strengthen and grow within the core South African market and to establish Africa as a second engine of growth. The Group opened 111 new stores during the year and closed 26 under-performing stores, adding 3.4% net new space. The total number of stores at year-end is 1 076, comprising 643 company-owned stores and 433 franchise stores, across multiple retail formats and six southern African countries. In addition 52 stores, three of which operate under the Pick n Pay brand, are operated in Zimbabwe by our associate, TM Supermarkets.

	4 March 2013	Opened	Closed	Converted – openings	Converted – closures	2 March 2014
COMPANY OWNED						
Pick n Pay	**420**	**51**	**(7)**	**2**	**(2)**	**464**
Hypermarkets	20	—	—	—	—	**20**
Supermarkets	185	19	(4)	1	(1)	**200**
Clothing	76	14	(2)	—	—	**88**
Liquor	135	18	(1)	1	(1)	**152**
Pharmacy	4	—	—	—	—	**4**
Boxer	**150**	**29**	**(7)**	**7**	**—**	**179**
Superstores	113	7	(3)	6	—	**123**
Hardware	15	5	(1)	—	—	**19**
Liquor	12	10	(2)	1	—	**21**
Punch	10	7	(1)	—	—	**16**
Total company owned	**570**	**80**	**(14)**	**9**	**(2)**	**643**
FRANCHISE						
Pick n Pay						
Family	262	8	(10)	1	(7)	**254**
Mini market	23	—	(1)	—	—	**22**
Daily	1	—	—	—	—	**1**
Express	17	4	—	—	—	**21**
Clothing	13	1	—	—	—	**14**
Liquor	105	18	(1)	1	(2)	**121**
Total franchise	**421**	**31**	**(12)**	**2**	**(9)**	**433**
Total Group stores	**991**	**111**	**(26)**	**11**	**(11)**	**1 076**
TM Supermarkets – associate	49	3	—	—	—	**52**
Total including associate	**1 040**	**114**	**(26)**	**11**	**(11)**	**1 128**

Footprint outside of South Africa

	4 March 2013	Opened	Closed	Converted – openings	Converted – closures	2 March 2014
Pick n Pay company owned	5	3	—	—	—	**8**
Boxer company owned	5	—	—	—	—	**5**
Pick n Pay franchise	36	2	(5)	—	—	**33**
TM Supermarkets – associate	49	3	—	—	—	**52**
Total Africa	**95**	**8**	**(5)**	**—**	**—**	**98**

Overview of financial result

Turnover

Turnover growth of 7.7% was achieved against the backdrop of a tough trading environment, with consumer spending coming under increasing pressure from rising costs and lower confidence. Like-for-like turnover growth is 2.7%. We remain focused on our customers' needs and will drive turnover growth by consistently improving our product offering, stock availability and customer service. There is evidence that our focus on improving the shopping trip for customers is having a positive effect, with Pick n Pay steadily closing the market share growth gap with our closest competitors. Our customer count increased by 3.2% over the year and we served our customers with more than 770 million transactions. Customers are more engaged than ever in our smart shopper loyalty programme, with the introduction of a number of enhancements over the year, including the interface with our point of sale system (loyalty points and vouchers printed on till slips), instant saver promotions and the smart shopper mobile application. Smart shopper sales participation is 62% and the rate of points' redemption has increased by 11 percentage points to 69%.

	364 days 2014 Rm	Normalised trading calendar 364 days (pro forma) 2013 Rm	Comparable pro forma change %	As previously reported 368 days 2013 Rm	% change on prior year as published
Group segmental revenue	**64 167.4**	59 845.7	7.2	60 528.4	6.0
South Africa Division	**60 925.9**	57 310.7	6.3	57 951.1	5.1
Africa Division	**3 241.5**	2 535.0	27.9	2 577.3	25.8

The South Africa Division represents the majority of the Group's operations. Despite the challenges of the trading environment, this division grew at every level. We served more customers, with higher value baskets and in more stores. Turnover was supported by 103 store openings (77 company owned and 26 franchised), across all formats and in both the Pick n Pay and Boxer brands. We are keenly focused on improving the quality of our fresh and perishable produce and our pre-packaged convenience ranges, and are seeing good results in this area. We are experiencing more growth in our smaller, convenient supermarkets, while our larger Hypermarket format remains under pressure. We have a focused plan in place for each individual Hyper and are working hard at improving the customer offer in those stores. Our general merchandise team has made good progress in rationalising and focusing our general merchandise range, which will start to have a positive impact on the business, particularly in our Hypermarkets. Our smaller clothing and liquor formats continue to perform well and make meaningful contributions to the turnover and profit growth of the business. We will introduce expanded and targeted clothing ranges into our supermarkets next year.

The Africa Division increased its segmental revenue by 27.9% over the 2014 financial year. This division has 46 stores outside South Africa and a 49% investment in 52 supermarkets in Zimbabwe. We are developing our presence outside of South Africa, which although still a relatively small part of our business, has the potential to be a second engine of growth for Pick n Pay. Pick n Pay closed its franchise business in Mauritius and Mozambique during the year, exiting territories and partnerships which were not profitable for the Group, in order to focus on more strategic opportunities. We are particularly pleased with the financial performance of our company-owned business in Zambia which continues to deliver strong trading results. TM Supermarkets opened three new supermarkets in Zimbabwe during the year bringing the total number of stores operated by our associate to 52, including three Pick n Pay stores which trade strongly under the strength of our core brand.

Gross profit

The Group has maintained the gross profit margin at 17.5%. We are pleased with the progress made across our buying and distribution channels, which has resulted in improved efficiencies and meaningful cost reductions. In particular our two central distribution centres, at Longmeadow in Gauteng and Philippi in the Western Cape, have both delivered considerable operating improvements which have significantly reduced the net cost of distribution as a percentage of turnover. We have also demonstrated improved control over waste and shrink which are well below the levels of the previous year.

In addition, our new reporting platform is enabling improved gross margin management through the enhanced visibility of more timely information.

All the benefits realised have been reinvested back into the selling price of goods, as part of our strategy of investing in the shopping trip. We ran a wide range of targeted and innovative promotions during the year, aided by our greater understanding of customers through our smart shopper loyalty programme.

Other trading income

	364 days 2014 Rm	368 days 2013 Rm	% change
Other trading income	**500.6**	**518.9**	**(3.5)**
Franchise fee income	**311.2**	321.5	(3.2)
Operating lease income	**77.8**	75.8	2.6
Commissions and other income	**111.6**	121.6	(8.2)

During the period under review, trading income previously included under cost of merchandise sold has been reclassified and disclosed separately. This has been done to improve visibility of all other trading income, specifically commissions received. The prior year has been restated to align with the current year disclosures. Refer to note 31 on page 136 of the Group financial statements for more detail.

The decrease in commissions and other income is mainly due to customers moving away from purchasing airtime at the till to other digital platforms. Franchise fee income was invested in our support of certain emerging markets franchisees.

Trading expenses

Trading expenses increased by 5.3% and as a percentage of turnover, decreased from 17.1% to 16.7%. Our teams across the business have been extremely focused on expense control and on improving productivity and efficiency, and we are pleased with the progress made over the year, with like-for-like expense growth (removing the impact of new and closed stores) of less than 1%, against CPI growth for the year of 5.8%.

	364 days 2014 Rm	% of 364-day turnover 2014	368 days 2013 Rm	% of 364-day turnover 2013	% change	Like-for-like % change
Trading expenses	**10 530.2**	**16.7**	**10 001.9**	**17.1**	**5.3**	**0.8**
Employee costs	**5 326.3**	8.4	4 952.0	8.4	7.6	3.2
Occupancy	**1 613.9**	2.6	1 500.5	2.6	7.6	2.6
Operations	**2 580.5**	4.1	2 363.9	4.0	9.2	4.1
Merchandising and administration	**1 009.5**	1.6	1 185.5	2.0	(14.8)	(17.9)

Employee costs

The Group is focused on increasing labour productivity in the business and on reducing labour costs. We contained the increase in employee costs at 7.6%, notwithstanding our new store growth and a new three-year wage agreement which came into force at the beginning of the financial year, and included an above-CPI wage rate increase for the year. Like-for-like employee cost growth is 3.2%.

The roll-out of our new Kronos labour scheduling system is complete, and is helping us to staff our stores more efficiently and effectively. One of our strategic objectives is to be the employer of choice in the retail industry, which incorporates the principle of providing employee benefits which are fair and just in order to attract the best talent in the retail industry. Cost savings will therefore come from increased productivity and efficiency and we look forward to working together with our teams and unions in this regard. Customer service remains a priority at Pick n Pay and we provide our staff with ongoing training in this area.

We continued with the centralisation of our finance and administration functions, removing duplicate costs and services in the business. This process necessitated tough decisions during the year and resulted in the retrenchment of some head office support staff. This was a difficult time for the business, but the rigorous review of all support structures and processes has enabled us to create a more streamlined and effective support office.

Occupancy costs

The 7.6% increase in occupancy costs is in line with the Group's store expansion programme, with the like-for-like increase at 2.6%. This is pleasing in light of the continued above CPI regulatory increases in rates and taxes. We remain a tenant of choice in the retail industry and are able to negotiate competitive rentals and escalation terms with our landlords. Escalation terms average 6.5%.

Operations

The 9.2% increase reflects our opening of 80 company-owned stores during the 2014 financial year, with the like-for-like increase at 4.1%. Electricity usage is well controlled, and we have an effective programme of reducing energy use in our stores. However, administered price increases are resulting in significantly higher costs. Amortisation and depreciation has increased by 5.9%, compared with the 10.8% growth seen in 2013, which illustrates the good work being done around the control of capital expenditure and ensuring the spend is targeted at improving the customer offer.

Merchandising and administration

We are pleased with the progress made on eliminating excess administrative costs in the business, particularly at support office level. Merchandise and administration expenses have decreased by 14.8%, with a like-for-like decrease of 17.9%. We have almost entirely removed consultancy costs from the business. As South Africa's largest acceptor of electronic tender, we have experienced increased bank fees as our customers move from debit cards to hybrid cards. We are encouraged that the Reserve Bank has taken action to reduce bank interchange fees in respect of credit, debit and hybrid costs. The reduced fee schedule is expected to be in force from 1 January 2015, with the benefits flowing in the 2016 financial year.

Trading profit

The trading profit margin improved from 1.3% to 1.6%. Expense control has been the key differentiator in our improved performance this year, countering the subdued turnover growth and continued investment in gross margin. We are very pleased with the good work being done around tighter fiscal control, with all areas of the business contributing to the expense savings. There is still a great deal of work to be done to optimise our cost structure and augment our productivity and efficiency, but we are demonstrating that we can run a lower cost, more streamlined business.

Loss on capital items

During the 2014 financial year the Group completed the centralisation of its buying, operational and finance support functions. As a result, systems and reporting tools previously developed to support the decentralised business operation became obsolete, necessitating an impairment review of certain intangible assets. Management estimated the recoverable amount (calculated as the higher of the value in use and the fair value less costs to sell) of the related intangible assets as zero and an impairment of R104.1 million was recognised in the statement of comprehensive income in the current reporting period. This impairment, net of the related tax effect of R29.1 million, has been added back in the calculation of headline earnings for the period under review. The loss on capital items also includes a loss on the sale of fixed assets of R5.5 million, against a profit of R21.6 million in the prior year.

Tax

The Group's effective tax rate decreased from 31.9% to 29.9%. The value of the write-back of non-tax deductible expenditure is in line with last year, but as profit increases the impact of this non-deductible expenditure lessens, resulting in a reduction of the overall effective tax rate.

Earnings per share

Basic earnings per share (EPS) increased 6.0% from 115.14 cents to 122.01 cents per share. The new 52-week reporting calendar reduced the current reporting period by four trading days compared with the prior year. The comparable EPS growth (if the impact of 14.64 cents per share attributable to the additional trading days last year is excluded) is 21.4%

Headline earnings per share (HEPS) increased 24.4% from 111.30 cents to 138.51 cents per share. The new 52-week reporting calendar reduced the current reporting period by four trading days compared with the prior year. The comparable HEPS growth (if the impact of 14.64 cents per share attributable to the additional trading days last year is excluded) is 43.3%.

The significant difference in the growth in headline earnings per share against basic earnings per share is the exclusion of profits and losses of a capital nature in the calculation of headline earnings. Capital losses net of tax of R78.9 million are added back to headline earnings in 2014 (mainly comprising the impairment of intangible assets), against a deduction net of tax of R18.4 million of capital profits in 2013.

Net working capital

	As at 2 March 2014 Rm	As at 3 March 2013 Rm
Inventory	**3 979.8**	3 996.5
Other current assets	**2 844.6**	2 361.1
Cash and cash equivalents	**1 540.3**	1 255.7
Bank overdraft and overnight borrowings	**(670.0)**	(1 525.6)
Other current liabilities	**(8 942.2)**	(7 382.4)
Net working capital	**(1 247.5)**	(1 294.7)

We are pleased with the slight improvement in net working capital, particularly in the context of the store expansion programme.

Inventory

Inventory has decreased by R16.7 million or 0.4%, with like-for-like inventory (excluding the impact of new stores) decreasing by 5.7%. We have been focused on removing slow-moving inventory lines from our business, rationalising our product range to provide our customers with a more focused and relevant offering, as well as improving our supply chain efficiencies with improved strike rates to stores. We are pleased with our progress in this area, but there is still much work to be done.

Trade and other receivables

The increase of R480.0 million relates to the 12 net new franchise stores. Franchise receivables are well controlled, but our exposure to emerging market franchisees has resulted in a net increase in our allowance for impairment losses of R43.2 million. More than 90% of the trade receivables balance relates to franchisees that have an excellent credit history with the Group.

Cash and capital management

Working capital management is critical in maintaining a sustainable and cost-effective capital structure, and as such the Group's liquidity position is continually monitored. The net cash and overnight borrowing position at year-end has improved by R1 140.2 million on last year, from negative R269.9 million to R870.3 million. The improved cash position is testament to the good work being done in respect of inventory management and improved fiscal control over both capital and operating expenditure. We raised an additional R300 million borrowing under our DMTN programme to capitalise on competitive interest rates in the capital markets.

The Group utilises interest-bearing borrowings to fund specifically identified capital expenditure. All capital expenditure is reviewed through a rigorous requisition and approval process.

The net interest expense of R99.6 million is R11.1 million more than the prior year's expense of R88.5 million, due to periods of elevated borrowings during the financial year as a result of increased capital expenditure and inventory provisioning relating to new stores, particularly in the first half of the year.

Cash outflows for the period relate to capital expenditure of R1.3 billion, with 72% (R911 million) of our capital investment focused in expansion and improving the shopping experience.

	2014 Rm	2013* Rm
Capital expenditure		
Expansion into new stores	**592**	539
Improving existing stores	**319**	340
Improving the customer experience	**911**	879
Investing in future infrastructure	**158**	328
Maintaining current infrastructure	**191**	88
Total capital expenditure	**1 260**	1 295

** Restated to accord with current year reclassifications.*

Capital commitments to the value of R1.6 billion are planned for the 2015 financial year. The focus will remain on expanding our footprint and our convenience offering to our customers. We will add more than 100 stores, across all formats, next year. We are committed to reducing our per square metre capital expenditure spend, without compromising on the quality of our supermarkets. All future capital commitments will be funded through internally generated cash flow, the roll-over of our Domestic Medium Term Note (DMTN) programme and longer-term borrowings, where appropriate.

PICK N PAY HOLDINGS LIMITED RF

Pick n Pay Holdings Limited RF's (Pikwik) only asset is its 53.6% (2013: 53.6%) effective holding in Pick n Pay Stores Limited (excluding treasury shares). The Pikwik earnings are directly related to those of this investment. The table below highlights the key financial indicators:

	364 days 2014	Normalised trading calendar 364 days (pro forma) 2013	Comparable pro forma change %	As previously reported 368 days 2013	% change
Total till sales	**R73.0 billion**	R67.8 billion	7.6	R68.5 billion	6.5
Turnover	**R63.1 billion**	R58.6 billion	7.7	R59.3 billion	6.5
Gross profit margin	**17.5%**	17.5%		17.4%	
Trading profit	**R1 008.1 million**	R749.8 million	34.4	R850.5 million	18.5
Profit before tax	**R830.9 million**	R706.3 million	17.6	R807.0 million	3.0
Basic earnings per share	**60.61 cents**	49.87 cents	21.5	57.03 cents	6.3
Headline earnings per share	**68.83 cents**	47.95 cents	43.5	55.11 cents	24.9
Total annual dividend per share	**44.30 cents**			40.78 cents	8.6

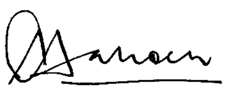
PICK N PAY STORES LIMITED AND PICK N PAY HOLDINGS LIMITED RF

Shareholder distribution

In line with our review of all aspects of the business, the Board of Pick n Pay Stores Limited has moderated its annual dividend cover to 1.5 times headline earnings per share. Pick n Pay Holdings Limited RF's dividend policy is to pay out all profits for the year. The final dividend of 77.50 cents per share for Pick n Pay Stores Limited and 37.10 cents per share for Pick n Pay Holdings Limited RF brings the total dividend for the annual period to 92.30 cents per share for Pick n Pay Stores Limited (9.9% up on the comparable period) and 44.30 cents per share for Pick n Pay Holdings Limited RF (8.6% up on the comparable period).

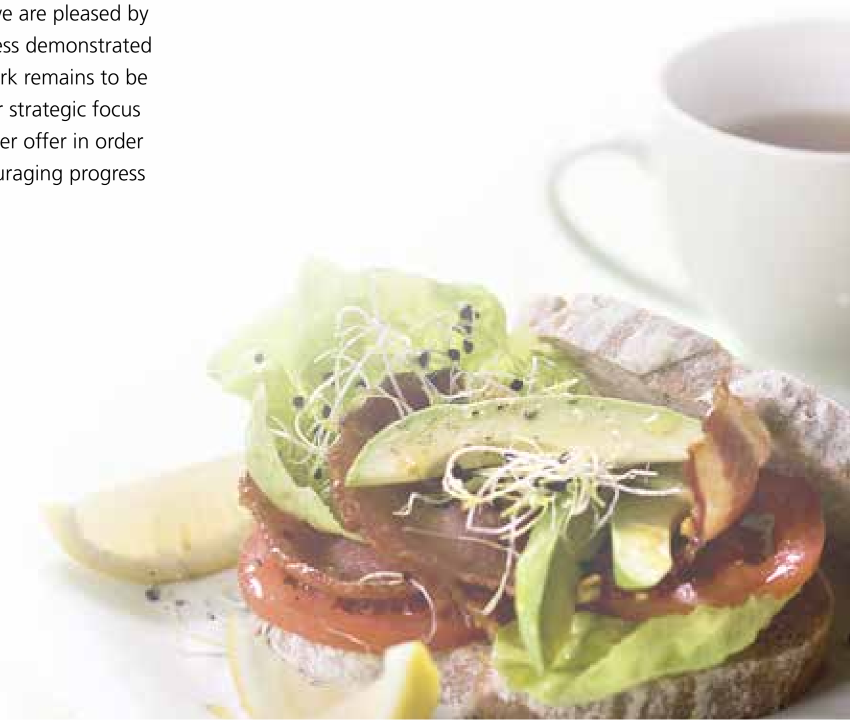
Prospects

It has been a challenging but rewarding year and we are pleased by this improved financial performance and the progress demonstrated across all areas of our business. However, much work remains to be done in what is a difficult trading environment. Our strategic focus remains on the dual goals of improving our customer offer in order to drive turnover growth, and continuing the encouraging progress on efficiency and expense control.



Bakar Jakoet
Chief Finance Officer

Cape Town
14 April 2014

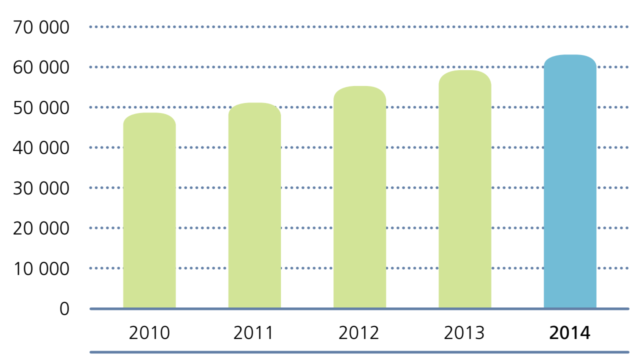


Five-year review

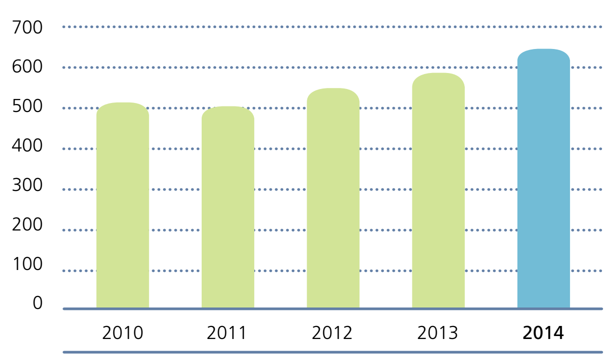
R million unless otherwise stated		2014 364 days	2013 368 days	2012 366 days	2011 365 days	2010 365 days
Pick n Pay Stores Limited						
PERFORMANCE MEASURES						
Turnover growth	%	**6.5**	7.1	8.1	5.1	11.3
Gross profit on turnover*	%	**17.5**	17.4	17.8	17.6	18.0
Trading profit growth	%	**18.5**	(33.2)	(10.1)	(13.5)	(2.1)
Trading profit on turnover	%	**1.6**	1.4	2.3	2.8	3.4
Profit on turnover	%	**0.9**	0.9	1.4	1.8	2.4
Headline earnings growth	%	**24.5**	(30.7)	(14.8)	(17.8)	1.4
Headline earnings on turnover	%	**1.0**	0.9	1.4	1.8	2.3
Headline earnings per share	cents	**138.5**	111.5	160.8	189.3	231.7
Headline earnings per share growth	%	**24.2**	(30.7)	(15.1)	(18.3)	1.1
Return on shareholders' equity	%	**25.9**	22.1	29.9	36.5	52.7
Return on total assets	%	**4.9**	4.3	5.9	7.0	9.3
Net asset value per share	cents	**645.6**	586.0	548.0	503.0	512.5
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME						
Turnover		**63 117.0**	59 271.3	55 330.5	51 185.0	48 703.2
Trading profit		**1 010.3**	852.4	1 275.1	1 417.7	1 638.7
Headline earnings		**662.6**	532.2	767.8	900.8	1 096.4
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION						
Assets						
Non-current assets		**5 739.9**	5 407.8	5 091.1	4 078.3	4 849.3
Current assets		**8 364.7**	7 613.3	6 727.2	7 022.0	6 349.5
Total assets		**14 104.6**	13 021.1	11 818.3	11 100.3	11 198.8
Equity and liabilities						
Ordinary shareholders' equity		**2 702.6**	2 416.0	2 404.1	2 158.8	2 144.6
Non-current liabilities		**1 789.8**	1 697.1	1 609.3	1 383.3	1 391.4
Current liabilities		**9 612.2**	8 908.0	7 804.9	7 558.2	7 662.8
Total equity and liabilities		**14 104.6**	13 021.1	11 818.3	11 100.3	11 198.8

* *In order to improve disclosure, components of gross profit has been reclassified to other income. Refer to notes 2 and 31 of the Group financial statements. Comparative numbers presented have been restated accordingly.*

Turnover (Rm)



Net asset value (Rm)



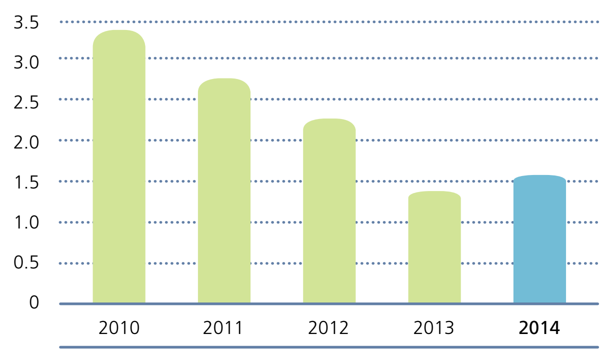
		2014 364 days	2013 368 days	2012 366 days	2011 365 days	2010 365 days
STOCK EXCHANGE (JSE LIMITED) PERFORMANCE						
Pick n Pay Stores Limited (PIK)						
Number of shares in issue	millions	**480.4**	480.4	480.4	480.4	480.4
Weighted average number of shares in issue	millions	**478.4**	478.1	477.4	475.7	473.2
Total market capitalisation	Rm	**21 685.1**	21 829.3	20 690.7	22 309.7	19 408.1
Market capitalisation net of treasury shares	Rm	**21 596.0**	21 736.3	20 583.8	22 151.2	19 134.1
Price:earnings ratio	times	**32.6**	40.8	30.2	28.2	18.9
Dividend per share	cents	**92.3**	84.0	130.9	142.5	174.5
Dividend cover	times	**1.5**	1.3	1.1*	1.2	1.2
Volume of shares traded	millions	**165.2**	274.5	216.8	275.7	209.5
Percentage of shares traded	%	**34.4**	57.1	45.1	57.4	43.6
Market price per share						
– close at year-end	cents	**4 514**	4 544	4 307	4 644	4 040
– high for the year	cents	**5 440**	4 900	4 850	4 999	4 160
– low for the year	cents	**3 519**	4 022	3 504	3 944	2 812
Pick n Pay Holdings Limited RF (PWK)						
Number of shares in issue	millions	**527.2**	527.2	527.2	527.2	527.2
Weighted average number of shares in issue	millions	**516.2**	516.4	516.4	515.9	515.3
Total market capitalisation	Rm	**10 835**	9 986.1	9 664.5	19 581.9	8 857.8
Headline earnings per share	cents	**68.8**	55.1	70.8	82.1	106.8
Price:earnings ratio	times	**29.9**	34.4	25.9	24.4	15.7
Dividend per share	cents	**44.3**	40.8	63.5	69.3	84.9
Dividend cover	times	**1.6**	1.4	1.1*	1.2	1.3
Volume of shares traded	millions	**70.5**	139.6	122.8	165.7	60.4
Percentage of shares traded	%	**13.4**	26.5	23.3	31.4	11.5
Market price per share						
– close at year-end	cents	**2 055**	1 894	1 833	2 007	1 680
– high for the year	cents	**2 300**	2 118	2 030	2 115	1 783
– low for the year	cents	**1 619**	1 770	1 459	1 655	1 207

** Due to an additional dividend paid to shareholders in respect of secondary tax on companies no longer payable, the dividend cover for the period decreased.*

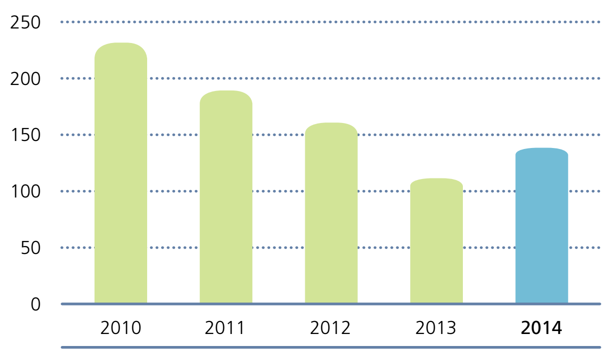
Definitions

Headline earnings	Profit for the period adjusted for the after tax effect of certain capital items
Return on shareholders' equity	Headline earnings expressed as a percentage of the average ordinary shareholders' equity for the period
Return on total assets	Headline earnings expressed as a percentage of the average total assets for the period
Headline earnings per share	Headline earnings divided by the weighted average number of shares in issue for the period
Dividend cover	Headline earnings per share divided by the dividends per share which relate to those earnings
Net asset value per share	Total value of net assets at period end, adjusted for directors' valuations of property and investments, divided by the number of shares in issue at period end, held outside the Group
Market capitalisation	The price per share at period end multiplied by the number of shares in issue at period end
Price:earnings ratio	The price per share at period end divided by headline earnings per share
Dividends per share	The interim dividend declared during the current financial period and the final dividend declared after period end, in respect of the current financial period

Trading profit on turnover (%)



Headline earnings per share (cents)



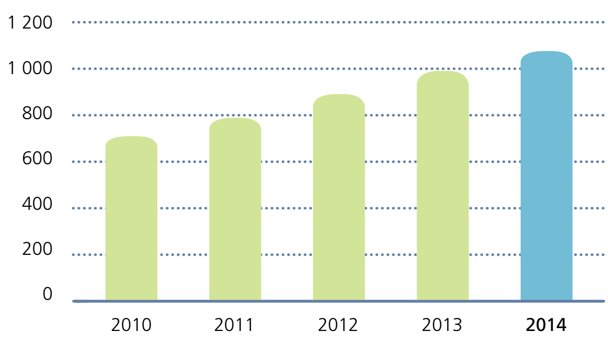
Five-year review continued

		2014 364 days	2013 368 days	2012 366 days	2011 365 days	2010 365 days
Pick n Pay Stores Limited						
EMPLOYEE MEASURES						
Employee statistics						
Number of employees	000	**49.3**	47.9	42.4	49.0	53.1
Permanent employee turnover	%	**15.0**	16.0	15.0	15.0	—*
Investment in training, including bursaries	millions	**91.7**	89.9	80.2	71.8	55.2
Employment equity**	%					
Top management	%	**39.0**	40.0	39.0	39.0	39.0
Senior management	%	**61.0**	60.0	60.0	58.0	59.0
Professionally qualified middle management	%	**85.0**	84.0	84.0	84.0	84.0
Skilled technical and junior management	%	**95.0**	95.0	95.0	94.0	—*
Semi-skilled and discretionary decision making	%	**99.8**	99.7	99.8	100.0	93.0
Unskilled and defined decision-making	%	**99.6**	99.6	99.6	99.6	100.0
OPERATIONAL STATISTICS						
Number of stores						
Group		**1 076**	991	891	789	710
Pick n Pay – Owned		**464**	420	374	311	286
Pick n Pay – Franchise		**433**	421	388	369	321
Boxer stores		**179**	150	129	109	103
Associate						
TM Supermarkets		**52**	49	50	51	53
Total square metres	000 m²	**2 069.4**	2 002.2	1 895.2	1 818.3	1 873.7
Owned	000 m²	**1 466.6**	1 386.4	1 269.9	1 223.1	1 293.5
Franchise	000 m²	**602.8**	615.8	598.3	595.2	580.2

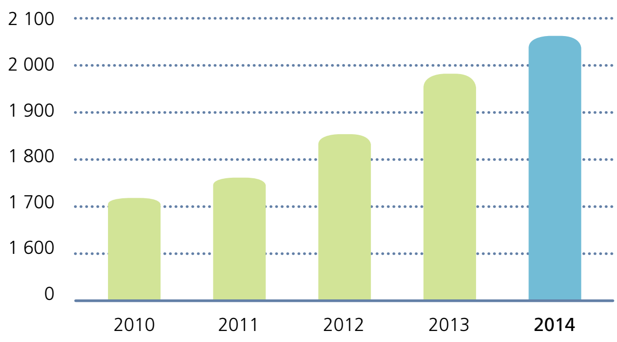
* *Information for 2010 was not measured.*

** *These measures represent the participation of employment equity candidates, as governed by the Employment Equity Act, No 55 of 1998, in the presented categories.*

Number of stores



Total square metres (000m²)



Value added statement

Pick n Pay Stores Limited	2014 364 days Rm	%	2013 368 days Rm	%
Turnover	**63 117.0**		59 271.3	
Amounts paid for merchandise and expenses	**(55 909.6)**		(52 504.8)	
Interest and dividends received	**44.3**		42.8	
Value added	**7 251.7**	**100.0**	6 809.3	100.0
Distributed as follows:				
To employees as salaries, wages and other benefits	**5 326.3**	**73.5**	4 952.0	72.7
To investors as dividends and interest paid	**542.3**	**7.5**	714.8	10.5
To government as income taxation	**249.4**	**3.4**	258.3	3.8
Reinvested in the business to finance expansion and growth	**1 133.7**	**15.6**	884.2	13.0
	7 251.7	**100.0**	6 809.3	100.0

Adding value to stakeholders